

CABINET

21 July 2015

Title: Medium Term Financial Strategy Update	
Report of the Cabinet Member for Finance	
Open Report	For decision
Wards Affected: All	Key Decision: Yes
Report Authors: Jonathan Bunt, Chief Finance Officer Kathy Freeman, Group Manager – Corporate Finance	Contact Details: Tel: 0208 227 3497 E-mail: Kathy.freeman@lbbd.gov.uk
Accountable Director: Jonathan Bunt, Chief Finance Officer	
Summary <p>This report updates the Medium Term Financial Strategy presented to Assembly in February 2015.</p> <p>Since February, a number of assumptions around funding, demographic profiles and increases in demand have resulted in the budget gap increasing from £2.152m to £5.710m for 2016/17. Assembly originally approved to fund the £2.152m budget shortfall from reserves but given the increase in the shortfall, it is proposed that the Council undertakes a savings process to close the 2016/17 gap.</p> <p>This report also considers the impact of the Emergency Budget announced on 8 July 2015 and models the financial implications through to 2020. By 2020, the Council will need to make cuts of up to c£72m.</p> <p>This report proposes the launch of the Ambition 2020 programme and a Growth Commission. The Ambition 2020 programme will work towards developing a series of options to close the c£72m projected budget gap and deliver the Council's political ambitions. Updates on progress to Members will begin in the Autumn of 2015 but given the magnitude of the financial challenge faced, this programme won't conclude until the latter part of 2016/17. The Growth Commission will be a complimentary activity, the purpose of which will be to discern how the significant growth in London, East London and Barking and Dagenham can be leveraged for the maximum benefit of our residents now and in the future.</p>	
Recommendation(s) The Cabinet is recommended to:	
(i) Agree the Council's MTFS and note the projected c£72m budget shortfall from 2016/17 through to 2020/21;	
(ii) Agree to the creation of the Ambition 2020 programme as the vehicle for identifying options to close the gap in (i) and deliver the Council's ambition;	

<ul style="list-style-type: none"> (iii) Agree the allocation of £1m to fund the initial stages of the Ambition 2020 programme; (iv) Agree to allocate up to £0.5m from reserves to fund the Growth Commission; (v) Note the impact arising from the Chancellor’s Emergency Budget on 8 July on the Council’s in year position; and (vi) Agree for officers to commence a savings process in respect of the 2016/17 budget gap of £5.710m, in the first instance working these up as “quick wins” in the Ambition 2020 programme.
<p>Reason Financial planning is key in supporting the Council to deliver its vision of “One borough; one community; London’s growth opportunity.</p>

1 Background

- 1.1 In December 2014, Cabinet agreed a range of savings options which enabled a balanced two year budget to be presented to Members. This was based on an estimate of available resources and anticipated pressures on Council budgets.
- 1.2 The budget and Council Tax for 2015/16 was formally agreed by Assembly in February 2015 along with the Council’s Medium Term Financial Strategy (MTFS) for 2015/16 to 2018/19. This included the intention to raise Council Tax in 2016/17 and the use of £2.152m from Council reserves.

2 Delivery of 2015/16 and 2016/17 Budget

- 2.1 The delivery of the 2015/16 budget will be reported regularly to Cabinet and an update features elsewhere on the agenda of this meeting. Whilst this report seeks to primarily focus on the Council’s financial position from 2016/17 onwards, it would be incomplete not to briefly reflect the pressures on the current and next financial years.
- 2.2 At a summary level, there are pressures being experienced from:
 - Children’s Social Care –increased demand in placements, no recourse to public funds, the cost of agency staff and unaccompanied asylum seekers.
 - Adult Community Services – increased cost of Adult Social Care in relation to direct payments and mental health residential placements; performance penalty on admissions targets on the Better Care Fund and risks in respect of delays to leisure and cultural services Trust proposal.
 - Housing Benefit – significantly increased volumes of new claims and changes in circumstances
 - Business Rate pooling – increased appeals provisions reducing business rates growth from the Pool.
 - Parking – banning use of CCTV cameras for enforcement of static parking contraventions except outside schools and bus stops.
 - Investment income – lower base rates and low bond yields reducing potential returns on cash deposits.

- 2.3 There are also a number of savings proposals for the next two years for which the delivery is not certain at the current time.
- 2.4 In the majority of cases, Cabinet Members and Chief Officers have committed to managing the emerging pressures and delivering or finding alternative savings to the agreed proposals.
- 2.5 The principal area of uncontained pressure is in Children's Social Care and a new programme has been established sponsored by the Corporate Director of Children's Services and led by an external Programme Director. In the short term, establishing the programme and the necessary resources to deliver the work strands to ultimately reduce the level of expenditure may lead to an increase in the reported overspend for Children's Services.
- 2.6 There are a number of projects and programmes within the budget proposals for 2015/16 and 2016/17, e.g. accommodation strategy, ICT transformation for which relevant dedicated teams and/or lead officers have been identified to ensure delivery. These will be monitored through the corporate programme office and delivery unit.

3 Current MTFS

- 3.1 The 2016/17 position was agreed by Assembly in February 2015. Assembly approved for the £2.152m budget deficit to be funded from reserves and to carry forward the deficit into 2017/18. The £2.152m budget gap is the net position following the agreement of by Cabinet of £12.855m of savings proposals.
- 3.2 The table below presents the MTFS as agreed by Assembly:

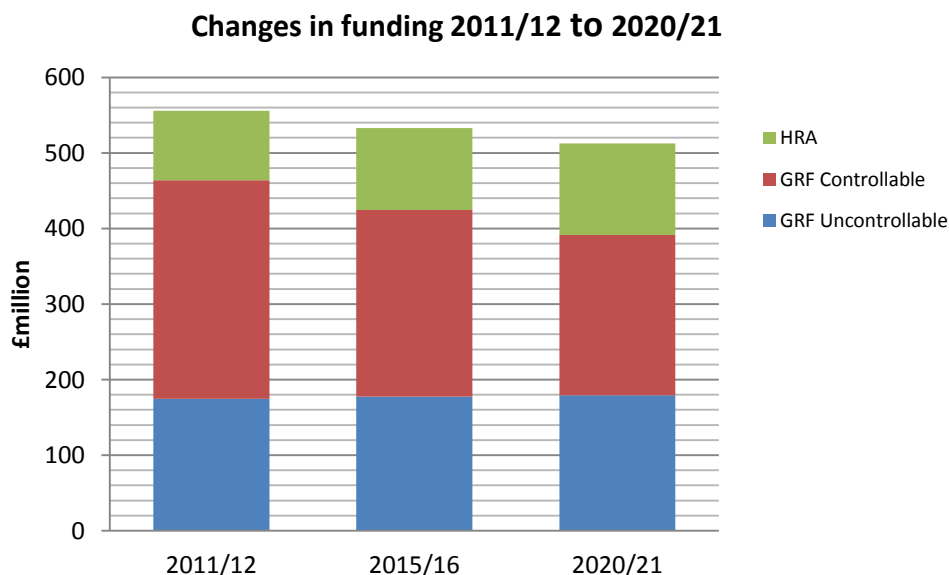
Pressures/Income	2016/17 £'000
Prior year (surplus)/deficit	(565)
Investment in capital programme	500
Staff pay award	1,000
Pension fund deficit	650
ELWA levy adjustment	265
Implications of the Care Act 2014	2,500
Increase in employers' NI contribution	2,000
Total additional costs	6,915
Changes in funding	9,300
Collection fund surplus prior year	1,718
2% increase in Council Tax	(800)
Increase in Council Tax base	(640)
Income from Business Rates pooling	(400)
New homes bonus	(521)
Total change in income	8,657
Cumulative budget gap	15,007
Savings	(12,855)
Budget gap after savings	2,152

- 3.3 This position was based on the information available in January 2015 and, inevitably, further information has subsequently become available. Crucially, since the report in February, the general election has delivered a Conservative majority government and therefore the implications of that need to be reflected.
- 3.4 The level of grant reduction has been increased from 10.5% to 13.1% and the current financial model assumes that Revenue Support Grant will almost cease to be paid within the next 5 years. The model makes similar assumptions with the Education Services grant as the Conservative government push for further schools to convert to academies. This increases the funding reduction from £9.3m to £11.6m.
- 3.5 Following the election, there were announcements from NHS England that will be making an in year cut to the Public Health grant of £200m nationally, which equates to a c7% reduction. Further details are yet to be published however service plans are being reviewed with the view of managing the implications.

4 Government Funding

- 4.1 Unlike previous years, the then coalition government only announced a one year financial settlement for local government and therefore later years, including 2016/17, only included an estimate for future funding.
- 4.2 On 8 July, in the Emergency Budget, the Chancellor made a headline announcement that reductions in public sector spending would be £17.3bn by 2020 in real terms. The spending reduction of £17.3bn is significantly lower than the Autumn 2014 announcement when he proposed to reduce public sector spending by £56.9bn.
- 4.3 Although the reduction in public sector is significantly lower than originally announced, the Chancellor has pledged for an increase of £8bn in NHS budgets, as well as a 0.5% increase for Defence budgets by 2020. The impact is that other parts of the public sector will face a decrease of c£25/26bn. This is still a favourable position compared to the Autumn 2014 statement. However, it is difficult to predict whether Local Government will receive a proportionate share of the reduction as Local Government has faced disproportionate funding reductions compared to other government departments since 2010.
- 4.4 No further details were announced regarding details of Departmental Expenditure Limits which are expected to be announced in Autumn 2015, as part of the Comprehensive Spending Review. Therefore, the MTFS has not been amended in light of the Budget announcement and still assumes that by 2020/21, nearly all Revenue Support Grant will be removed.
- 4.5 Despite the announcement not providing further information on the Local Government settlement, there are a number of other announcements on Welfare and Housing that will have a major indirect impact on the Council.
- 4.6 The Government has pledged a decrease of 1% in social housing rents over the next 4 years which could have a significant impact on the Housing Revenue Account. Full details are not yet known, but further analysis will be carried out when more information becomes available.

- 4.7 The proposed changes to the benefits cap, reducing from £26,000 to £23,000 will also have a large impact on the Council's residents and could potentially lead to increased homelessness within the borough.
- 4.8 Changes proposed to lower the income threshold before Working Tax Credits from £6,420 to £3,850 will also impact on the borough's residents, as will the removal of automatic to housing support and Universal Credit for new claimants aged 18 to 21 to prevent young people slipping into a life on benefits.
- 4.9 The Budget also included an announcement for a phased increase in the minimum wage to a living wage of £9 per hour by 2020. This will not impact on the Council's pay bill as it already commits to paying its staff £9.25 per hour but could create a cost pressure for some external providers who pay below the new rates. The increase in the rate may act to mitigate some of the impact of the cut to Working Tax Credits for the borough's residents.
- 4.10 During the course of summer, analysis will commence to assess the indirect impact of the Budget on the Council's MTFS, to further refine the budget gap. Due to the lack of detailed information available, the MTFS funding assumptions remain largely unchanged.
- 4.11 The graph below illustrates the changes to general fund expenditure from 2010 to 2020 based on the above assumptions.



5 Other Financial Assumptions

- 5.1 As in previous years, the reduction in central government funding is only part of the financial pressure for local government that needs to be incorporated in to the MTFS to establish the required estimated level of saving to deliver a balanced budget. The following paragraphs briefly outline those other items.

Pay and Inflation

- 5.2 Pay – The MTFS currently assumes a 1% national pay increase per year for 2016/17. This equates to c£1m per year as the Council currently spends £100m on staffing costs. Following the Emergency Budget on 8 July, public sector pay awards will be capped at 1%. The MTFS has been updated to reflect this.

- 5.3 Non pay – The MTFS assumes a 2% inflationary increase on other purchases and contractual spend the Council incurs. For a number of years, the directorates have managed inflationary pressures within their budgets but the position is unlikely to be sustainable over the longer term.

Investment in the capital programme

- 5.4 The MTFS builds in £0.5m for capital financing in 2016/17 and then a further £0.9m per year until 2020/21. £0.9m of capital financing costs equates to c£10m of investment in the capital programme. Therefore, the MTFS assumes c£46m available for capital investment funded by prudential borrowing to 2020/21.

- 5.5 The Council is currently holding significant cash balances which has reduced the need to borrow to fund the existing capital programme. The increased cash balances has resulted in a temporary reduction in the interest payable budget during 2015/16 and 2016/17. However, cash balances are forecast to reduce by 2017/18 which may lead to an increase in the Council's borrowing requirement, increasing the interest payable budget.

Levies

- 5.6 Levies are assumed to increase by 3% per annum, in line with historical trends.

Pensions and National Insurance costs

- 5.7 At the end of 2014/15, the Council's Pension Fund deficit was £430m. In order to narrow the gap, the 2013 actuarial valuation required the Council to increase the employer contribution by 1% per annum until 2016/17. A further actuarial valuation will take place in April 2016, which will inform the employer contributions from 2017/18 onwards. The MTFS currently assumes that the contributions will increase to 0.5% from 2017/18 though this will be reviewed in light of the 2016 valuation of the fund.

- 5.8 From 2016/17 onwards changes to the national pension scheme means all employers will pay a higher rate of National Insurance regardless of whether or not they operate their own pension scheme. Currently the Council pays c3% less National Insurance for employees who in the Local Government Scheme. From 2016/17 the additional cost to the Council will be £2m for general fund employees.

Care Act 2014

- 5.9 Additional financial modelling has been undertaken on the implications of the Care Act 2014. The model developed by Department of Health suggests that the costs for 2016/17 will be lower than originally forecast due to the period of time it will take before individuals reach the care cap. The costs assumed in the financial model for 2016/17 mainly relate to community based self funders. The Department of Health model shows the costs to significantly increase to under £1.5m by 2019/20 and increasing to £2.5m by 2022/23.

Deregulation Act 2015 – Parking income

- 5.10 The Deregulation Act came into force in April 2015, banning the use of CCTV to enforce parking contraventions, except outside schools and bus stops. The impact is a loss of £1.9m income per year. The Parking service is currently putting alternative measures in place to mitigate this pressure.

New Legislative Duties

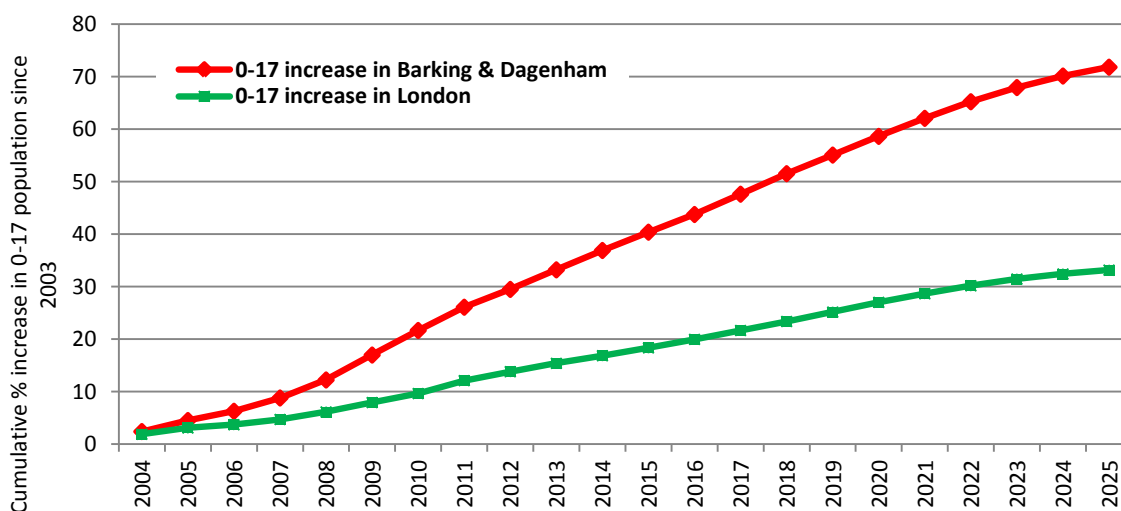
- 5.11 In the last two years, there have been several legislative changes resulting in financial implications for the Council; Children's and Families Act 2014, Care Act

2014, De-regulation Act 2015, and proposed changes to National Insurance contributions. The financial implications of these legislative changes are c£6m per year, and will increase to over £8m when the full impact of the Care Act comes into force. Therefore, the MTFs makes a prudent assumption and incorporates £2m per year for further legislative changes.

Demographic/Demand Pressures

- 5.12 The Borough's population is forecast to increase by 14% by 2020, compared to the national growth rate of 4.3%. Barking and Dagenham is the second fastest growing borough in London, next to Tower Hamlets. Despite this growth, the current Revenue Support Grant regime is fixed and does not take into the significant population changes; by 2020, the Council will have lost up to £20m of grant funding.
- 5.13 Following the introduction of Welfare Reform changes, the Council has seen a considerable increase in Homeless approaches. In just two years, there has been a 70% increase in personal callers to the Housing Advice service. There are concerns that further the benefit cap and the introduction of Universal Credit will further exacerbate the problem.
- 5.14 Although the borough's older people population is expected to grow at a far lower rate of 5% compared to the national average of 12% by 2020, the projected increase of adults accessing Mental Health services is 9.3% over the next five years, which is significantly higher than the position projected nationally of 3.6%.
- 5.15 Children's services are facing unprecedented growth. The projected cumulative increase in the 0-17 population between 2004 to 2025 will be 72% compared to an equivalent increase of 33% for the whole of London, illustrated by the chart below.

Cumulative rise in the 0-17 population since 2004



- 5.16 Although the population growth is significant in itself, the demand on Children's social care has increased disproportionately ahead of population growth. In real terms, the number of open cases has risen by 8% in the last year, and 81% in the last 10 years since 2004.
- 5.17 The complexity of the cases has also increased. The number of Child Protection cases has risen by 144% since 2004.

- 5.18 Additional work will be conducted to provide an in-depth analysis on the causes of rising demand to determine which elements can be tackled and reduced by developing social work or other agencies' practice. The Children's Services Programme Director will undertake various projects reviewing workforce, financial planning, support systems, case flow and demand management. The outcome of the projects will be brought back to Cabinet with proposals on how to reduce the projected overspend. Following the conclusion of this exercise, the MTFS will be updated to reflect the outcome of the review.

Council Tax

- 5.19 The current MTFS assumes that there will be a 2% increase to our Council Tax each year. This increases our funding by c£1m per year. By increasing Council Tax by 2% a year, by 2020/21, the cumulative income generated will be £14m.

Council Tax base increase

- 5.20 The Council is embarking on an ambitious agenda to build 35,000 new homes over the next 15 years. This will significantly increase our Council Tax base over the timeframe. The MTFS currently models a modest increase of 1.25% per annum, which assumes c500 additional new homes being built a year.

Non Domestic Rates

- 5.21 In October 2013, Barking and Dagenham formed a business rates 'pool' with the London Boroughs of Havering, Thurrock Council and Basildon Council. In April 2015, the Valuation Office Agency amended the appeals process which meant all backdated appeals had to be lodged before 30th April 2015. This change in policy encouraged many businesses to lodge appeals which significantly reduced the growth of business rates previously forecast by Thurrock Council and Basildon Council. The MTFS had assumed that the Council would receive £0.3m from the business rates pool in 2015/16 and up to £2.9m by 2018/19. The growth assumed in the MTFS from the business rates pool has therefore been removed.
- 5.22 The closure of Barking Power in February 2015 has generated a loss of £2.9m of retained business rates income.
- 5.23 There are plans in place to redevelop Dagenham Dock and the former Sanofi site to encourage business growth which will generate additional business rates income. However, as the loss of Barking Power station is so significant and accounted for c10% of the Council's rateable value, it will take time to regain this income.

New homes bonus

- 5.24 At this moment in time, no further announcements have been made about whether the New Homes Bonus scheme will continue to operate. The MTFS therefore assumes that the no new funding will be received and reduces the current grant each year to take into account that new homes bonus payments are only paid for a period of 6 years.

6 Revised MTFS

- 6.1 Reflecting the assumptions made for all of the above items results in the revised MTFS below with, after incorporating the agreed savings for 2016/17, a budget gap over the next five years of c£72m.

Pressures/Income	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Prior year (surplus)/deficit	-565	5,711	27,095	44,125	58,523
Investment in capital programme	500	900	900	900	900
Staff pay award & capacity building	2,000	1,000	1,000	1,000	1,000
Pension fund deficit	650	325	325	325	325
ELWA levy adjustment	265	320	350	350	350
Non staff inflation		2,100	2,100	2,100	2,100
Delaying of interest costs		3,000			
Implications of the Care Act 2014	670	700	770	1,010	1,260
Increased demand – Children	1,000	1,200	1,300	1,200	1,100
Increase in employers' NI cont.	2,000				
Impact of demographic pressures	500	500	500	500	500
Increase demand – Adults		400	500	700	800
Potential impact of new legislation		2,000	2,000	2,000	2,000
Total additional costs	7,585	12,445	9,745	10,085	10,335
Changes in funding	11,584	9,912	8,285	5,187	4,002
Collection fund deficit prior year	1,404				
2% increase in Council Tax	-890	-919	-949	-980	-1,012
Increase in Council Tax base	-552	-570	-589	-608	-628
Income from Business Rates pooling					
New homes bonus	0	516	538	714	428
Total change in income	11,546	8,939	7,285	4,313	2,790
In year budget gap	19,131	21,384	17,030	14,398	12,125
Savings	-12,855				
Cumulative budget gap	5,711	27,095	44,125	58,523	71,648

- 6.2 Inevitably estimating such a number of variables of this scale over a five year time period will create the potential for a large margin for error. For each entry in the MTFS a range of options has been considered with the mid case scenario incorporated as the working assumption.
- 6.3 It is therefore more practical, rather than an estimate which is potentially spurious in its accuracy, to recognise the broad quantum of the saving requirement up to 2020 as being approximately £72m to indicate the magnitude of the financial challenge for the Council.

7 Ambition 2020 Programme

- 7.1 Savings of £72m on top of the savings delivered since 2010 mean that the Council will be spending at the end of the decade less than half what it was at the start. This is an enormous challenge and demands a new approach.
- 7.2 The scale of challenge cannot be met by an iterative budget process that aims to trim existing Council services. In order to create a financially sustainable Council, a more fundamental examination of the role of the Council is required.

- 7.3 The traditional model of service delivery in silos can no longer be maintained. The significance of the budget gap means there needs to be a total re-think of how the Council operates.
- 7.4 The Ambition 2020 programme seeks to discern what needs to change so that the Council can continue to deliver its objectives and ambition while at the same time closing the financial gap. In other words it is about determining options for consideration by members over the coming 18-24 months so that a balanced budget can be agreed for 2017/18 through to 2020/21 during the course of 2016/17. It is envisaged that the Programme will be inclusive: seeking to involve staff at all levels in the organisation and work from the starting point that there are “no bad ideas”; there will also be a significant amount of public and service user engagement. Strong partnership working with our sub-regional neighbours will also be key as will learning from the private and voluntary sectors.
- 7.5 In order to achieve this aim and to support the delivery of the projects identified through the Ambition 2020 programme, the Growth Commission and other corporate priorities the Council will need to build its capacity. This will include amongst other things project and programme capability, analytical and data management skills, service expertise that can be ‘taken away from the day job’ to focus on the future and enhanced staff and public consultation capacity.
- 7.6 The Chief Executive’s restructure proposals and the creation of a dedicated Strategy and Programmes team will provide the much needed capacity to support the development and subsequent implementation of the Ambition 2020 programme, Growth Commission and other related activity. In addition, the divisional director of Commissioning and Safeguarding has been seconded full time to the role of Programme Director to oversee the development and execution of the Ambition 2020 programme. This is a very visible “down payment” on a commitment to ensure that internal expertise is redeployed to development activity before use is made of external interims, project officers, analysts and experts – notwithstanding that some external support will be inevitable. Whether redeployed and backfilled on an internal basis or brought in from outside, there is a need to pump prime this capacity and consequently funding changes of £1m have been incorporated into the MTFs.

Growth commission

- 7.7 The borough has huge growth opportunity with the ambition of creating 35,000 new homes and 10,000 new jobs over the next 15 years. In order to become financially sustainable, the Council needs to look at what kind of place Barking and Dagenham should be, how to regenerate the borough and how to create a “place” that delivers for the community the lives they aspire to lead. The Council needs to attract new businesses to invest in the borough, generate revenue through the housing market.
- 7.8 There is only one opportunity to do this right and therefore, alongside the Ambition 2020 programme, a Growth Commission has commenced to bring the expertise and insight to help shape the borough. Members are requested to approve funding from reserves of £0.5m for the Growth Commission.

8 Next Steps

- 8.1 Given the increase in the 2016/17 budget gap from £2.152m to £5.170m, officers will commence a savings process and proposals will be brought back for Members to consider in the Autumn.

- 8.2 Work on the Ambition 2020 programme has already commenced and an update from the Programme will be fed back to Members during the Autumn.
- 8.3 In order to manage down the Children's services demand pressures, the Programme director for Children's services has commenced a series of work streams. The outcome of his review will be reported back to Cabinet in September.

9 Financial Implications

- 9.1 Financial implications feature throughout this report.

10 Legal Implications

Implications provided by: Paul Feild Senior Corporate Governance Solicitor

- 10.1 Local authorities are under an explicit duty to ensure that their financial management is adequate and effective and that they have a sound system of internal control and management of financial risk. This report contributes to that requirement. Specific legal advice may be required in due course on the detailed implementation of savings options.
- 10.2 Where there are proposals for the closure or discontinuance of a service or services, appropriate consultation will need to be carried out. In the event that savings proposals affect staff, it will require consultation with Unions and staff. In addition to that Members will need to be satisfied that Equality Impact Assessments have been carried out before the proposals are decided by Cabinet. If at any point a resort to constricting expenditure is required, it is essential that due regard is given to statutory duties and responsibilities. In particular the Council must have regard to:
- any existing contractual obligations covering current service provision. Such contractual obligations where they exist must either be fulfilled or varied with agreement of current providers;
 - any legitimate expectations that persons already receiving a service (that is earmarked for reduction) may have to either continue to receive the service or to be consulted directly before the service is withdrawn;
 - any rights which statute may have conferred on individuals that as a result of which the council may be bound to continue its provision. This could be where an assessment has been carried out for example for special educational needs following a statement of special educational needs;
 - the impact on different groups affected by any changes to service provision as informed by relevant equality impact assessments;
 - the response to any consultation undertaken.

Public Background Papers Used in the Preparation of the Report: None

List of appendices: None